Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 566 - Historic Tax Credit Program Enhancements (LSB 1209 SZ.1)
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Fiscal Note Version - Revised
Requested by Senator Joe Bolkcom

Description

Senate File 566, as Amended and Passed by the Senate, modifies the current tax credit program for renovation and preservation of historic buildings and for Cultural and Entertainment Districts. The Bill:

- Modifies all tax credits issued previously through the Program to make them fully refundable in the redemption year. Current law allows unused credits to be refunded at approximately 75.0% of value.
- Makes all future tax credits issued through the Program refundable at 100% of value. Current law allows unused credits to be refunded at approximately 75.0% of value.
- Increases the current annual tax credit limit from $6.4 million to $10.0 million for FY 2008, $15.0 million for FY 2009, and $20.0 million for FY 2010 and succeeding fiscal years.
- Allocates 10.0% of available new credits to projects with a cost of $500,000 or less and 40.0% to projects in cultural and entertainment districts. The remaining credits are available for any qualified project.
- Limits the number of years in the future that tax credits may be reserved to three years. The current limit is five years.
- Provides a procedure for the Department of Cultural Affairs to reissue tax credit certificates with future effective dates. The procedure does not apply to tax credits that have been sold.

Background

The State Historic Preservation Tax Credit Program was created in HF 2560 (Income and Property Tax Credits, Deductions, and Exemptions Act of 2000). The original Program limited awards to $2.4 million per year. When demand exceeded the limit, the Department of Cultural Affairs issued credits from the tax credit allocation for future years. Tax credits are currently issued or reserved as far out as 2017.

The Program was expanded to include projects within Certified Cultural and Entertainment Districts, with $4.0 million added to the annual cap through FY 2015. That legislation (HF 868 – Iowa Values Fund Act of 2005) also forbids the award of tax credits more than five years into the future.

Assumptions

- There are approximately $7.0 million in projects with tax credit reservations prior to FY 2008 where the project has not been completed. With the changes in the Bill, the tax credits for those projects will be refundable at 100.0% of value, rather than at 75.0%. It is assumed that under current law, the average redemption value would have been 85.0%. It is further assumed that one-third of those projects will be completed and receive the credits each year in FY 2008 through FY 2011. Since the tax credit reservation years for the credits are in the past, the tax credits will be redeemed in the fiscal year the project is completed.

- New tax credit certificates issued from the FY 2008 allocation will be used 50.0% in FY 2009 and 50.0% in FY 2010.
- New tax credits issued from the FY 2009 allocation will be used 85.0% in FY 2010 and 15.0% in FY 2011.
- Starting FY 2010, the increase in tax credits allowed for a fiscal year will result in increased credit redemptions in the next fiscal year.
- Since the tax credits are refundable under current law and the proposed law, tax credits issued through the Program do not impact the calculation of the local option income surtax for schools.

Fiscal Impact

The tax credit changes contained in the Bill, as Amended and Passed by the Senate, will decrease net General Fund revenue by the following estimated amounts:

Net General Fund Direct Impact by Fiscal Year
In Millions of Dollars

Fiscal Year	Increase in Tax Credits Available	Fiscal Impact: Increase in Tax Credit Redemption
FY 2008	$3.6	$0.3
FY 2009	$8.6	$2.1
FY 2010	$13.6	$9.5
FY 2011	$13.6	$15.1
FY 2012	$13.6	$13.6
FY 2013	$13.6	$13.6
FY 2014	$13.6	$13.6
FY 2015	$13.6	$13.6
FY 2016	$17.6	$13.6
FY 2017	$17.6	$17.6

The tax credit does not sunset, so the fiscal impact will continue as long as sufficient demand for the program exists.

Sources

Department of Cultural Affairs
Legislative Services Agency Analysis

/s/ Holly M. Lyons

April 5, 2007

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.